



鄭州燃氣股份有限公司
Zhengzhou Gas Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)



First Quarterly Report 2004

* for identification purpose only

Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Zhengzhou Gas Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- Unaudited consolidated turnover and profit attributable to shareholders of the Group for the Relevant Period amounted to approximately RMB110,427,000 and RMB18,859,000 respectively, representing respective increases of approximately 20.32% and 25.47% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB74,037,000, representing an increase of approximately 57.40% over the corresponding period of last year, which was primarily attributed to the increase in the number of residential, commercial and industrial users, coupled with the increase in gas consumption by industrial and commercial users.
- Turnover derived from construction of gas pipelines aggregated to approximately RMB30,932,000 for the Relevant Period, representing an increase of approximately 18.65% over the corresponding period of last year, which was primarily attributed to satisfactory growth in the pipeline connection projects for residential users.
- Basic earnings per share for the Relevant Period was approximately RMB0.0151, representing an increase of approximately RMB0.0031 over the corresponding period of last year.
- The Directors do not recommend the payment of any interim dividend for the Relevant Period.

CONSOLIDATED RESULTS FOR THE FIRST QUARTER OF 2004 (UNAUDITED)

The board of Directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2004 (the "Relevant Period") together with the comparative figures for the corresponding period of 2003, which are set out as follows:

	Notes	Three months ended 31 March	
		2004 RMB'000	2003 RMB'000
Turnover	3	110,427	91,776
Cost of sales		(73,376)	(60,093)
Gross profit		37,051	31,683
Other revenue		173	122
Selling and distribution costs		(2,209)	(2,439)
Administrative costs		(7,348)	(7,130)
Other operating costs		(100)	-
Profit from operating activities		27,567	22,236
Finance costs		-	(10)
Profit before income tax		27,567	22,226
Income tax expenses	4	(7,440)	(6,402)
Profit before minority interests		20,127	15,824
Minority interests		(1,268)	(793)
Net profit attributable to shareholders		18,859	15,031
Basic earnings per share (RMB in yuan)	5	0.0151	0.0120

NOTES:**1. Basis of consolidation and presentation**

The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 18 December 2000. The overseas listed shares with a nominal value of RMB0.10 each (the "H Shares") in the registered share capital of the Company were listed on GEM on 29 October 2002.

The financial statements and related notes presented in this quarterly report have been prepared in accordance with International Accounting Standards and the interpretations issued by the Interpretations Committee of the International Accounting Standards Board (collectively, the "International Accounting Standards"), the Companies Ordinance of Hong Kong and the GEM Listing Rules.

The Group is principally engaged in the sale of piped natural gas, gas appliances and the provision of gas pipeline construction services. The parent company of the Company is Zhengzhou Gas Group Co., Ltd., which is incorporated in the PRC.

2. Change in significant accounting policies

There was no significant change in accounting policies during the Relevant Period.

3. Turnover

An analysis of the Group's turnover for the three months ended 31 March 2004 together with the comparative figures for the corresponding period in 2003 are as follows:

	Three months ended	
	31 March	
	2004	2003
	RMB'000	RMB'000
Natural gas	74,037	47,038
LPG (Note)	–	11,051
Gas appliances	853	1,668
Gas pipeline		
– Construction of gas pipelines	30,932	26,071
– Repairs and maintenance of gas pipelines	5,573	6,980
Others	24	303
	111,419	93,111
Less: Business tax and government surcharges	(992)	(1,335)
Turnover	110,427	91,776

Note: Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of LPG from 1 April 2003. The directors of the Company are of the opinion that the discontinuance of the sale of LPG did not have any significant effect on the Group's results.

4. Taxes

No provision for Hong Kong profits tax has been made as none of the Group's income was arising in or derived from Hong Kong during the Relevant Period. The PRC income tax of the Company has been provided at the applicable income tax rate of 33% on the assessable profit in accordance with the relevant tax laws and regulations.

	Three months ended	
	31 March	
	2004	2003
	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:		
– Current	2,500	3,921
– Deferred	4,940	2,481
	7,440	6,402
Tax expenses for the period	7,440	6,402

5. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB18,859,000 (corresponding period in 2003: approximately RMB15,031,000) divided by the weighted average number of 1,251,500,000 shares (corresponding period in 2003: 1,251,500,000 shares) of the Company in issue during the Relevant Period.

Diluted earnings per share for the three months ended 31 March 2003 and 31 March 2004 have not been calculated as no diluting events existed during those periods.

6. Reserves

Movements in reserves for the three months ended 31 March 2004 together with the comparative figures for the corresponding period of 2003 were as follows:

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Undistributed profit	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2003	101,026	6,025	6,025	2,124	36,679	151,879
Dividend paid for 2002					(18,184)	(18,184)
Transferred from retained earnings						–
Profit for the period					15,031	15,031
As at 31 March 2003	101,026	6,025	6,025	2,124	33,526	148,726
As at 1 January 2004	101,026	13,797	13,797	6,180	51,832	186,632
Dividend paid for 2003					(5,507)	(5,507)
Transferred from retained earnings				6,572	(6,572)	–
Profit for the period					18,859	18,859
As at 31 March 2004	101,026	13,797	13,797	12,752	58,612	199,984

DIVIDEND

On 17 March 2004, the Board resolved to pay a dividend of RMB0.0044 per ordinary share for the year ended 31 December 2003 to its shareholders whose names appear on the register of members of the Company on 28 May 2004, totaling RMB5,507,000 (2002 dividend distributed in 2003: RMB0.01453 per ordinary share, totaling RMB18,184,000). The recommendation is subject to approval by the shareholders of the Company at the Annual General Meeting to be held on 28 May 2004.

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004.

CONNECTED TRANSACTIONS

The Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") on 30 March 2004 for the acquisition (the "Acquisition") of three assets, including distant monitoring and signaling system, natural gas distribution pipelines and pipeline network cathode protection system (the "Assets") from Zhengzhou Gas Group Co., Ltd. (鄭州燃氣集團有限公司) (the "Vendor") for an aggregate consideration (the "Consideration") of RMB19.7 million (equivalent to approximately HK\$ 18.5 million*) which will be settled in cash.

As set out in the section headed "Business Objectives" in the prospectus of the Company dated 22 October 2002 (the "Prospectus"), the Company proposed to upgrade the overall management efficiency of the pipeline networks, which includes the pipeline network cathode protection system and the distant monitoring and signaling system. The Directors consider that the safety, stability and economy of gas transmission is crucial to the Group's business and the Acquisition provides a valuable opportunity for the Company to enhance its overall management efficiency which is in line with the business objectives set out in the Prospectus. Meanwhile, the Board believes that the acquisition of the new natural gas distribution pipelines in Zhengzhou under the Sale and Purchase Agreement serves to broaden the revenue base as well as the earning potential of the Company. In this regard, the Board believes that the Acquisition is in the interests of the Company and the shareholders of the Company (the "Shareholders") as a whole.

The terms of the Sale and Purchase Agreement (including the Consideration) have been determined after arm's length negotiations between the Company and the Vendor, with reference to the preliminary valuation of the Assets of RMB19.8 million (equivalent to approximately HK\$18.6 million*) as at 29 February 2004 as appraised by Vigers Appraisal & Consulting Limited, an independent valuer. The Directors (including the independent non-executive Directors) believe that the terms of the Sale and Purchase Agreement have been based on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned.

* For the purpose of this report, the exchange rate is fixed at RMB1.066 = HK\$1.00

As the Vendor is the controlling shareholder of the Company, the Acquisition constitutes a connected transaction of the Company under the GEM Listing Rules (prior to any amendment which took effect on or after 31 March 2004). As the Consideration for the Acquisition exceeds the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, the Acquisition accordingly is subject to the reporting, announcement and independent Shareholders' approval requirements as provided in Rules 20.15, 20.34 and 20.35 of the GEM Listing Rules (prior to any amendment which took effect on or after 31 March 2004).

In view of the interests of the Vendor in the Sale and Purchase Agreement, an independent board committee (the "Independent Board Committee") was appointed to advise the independent Shareholders on whether or not the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition) are in the interests of the Company and are fair and reasonable so far as the independent Shareholders are concerned. An independent financial adviser was appointed to advise the Independent Board Committee in respect of the terms and conditions of the Sale and Purchase Agreement.

The EGM will be convened on 8 June 2004 at which ordinary resolution will be proposed to approve, amongst other things, the transactions contemplated in the Sale and Purchase Agreement. The Vendor and its associates will abstain from voting at the EGM.

Details of the above connected transaction are set out in the announcement of the Company on the GEM website published on 31 March 2004 and the circular of the Company dated 21 April 2004.

REPAYMENT OF AMOUNT DUE TO THE HOLDING COMPANY

Pursuant to the repayment agreement entered into between the Company and its holding company, Zhengzhou Gas Group Co., Ltd., on 30 September 2002 ("Repayment Agreement"), the first installment of RMB10,000,000 out of an aggregate outstanding amount of RMB32,433,000 due to the holding company was matured on 1 March 2004. The Company has repaid the first installment in accordance with the Repayment Agreement. Pursuant to the Repayment Agreement, the outstanding amount shall be repayable provided that: (1) the Group has positive cash flow and retained earnings and such positive cash flows are sufficient to fund the repayment of the amounts payable and all working capital needs of the Group for the financial year in which such repayment is required to be made; and (2) each of the then independent non-executive Directors confirms that such repayment of any of such amount due to its holding company will not adversely affect the Group's operations or the implementation of its business plans for the year ended 31 December 2004. The Board, having taken into consideration of the business forecast, investment plan and cash flow forecast of the Group for the year of 2004, considers that the Group's operations for the year of 2004 shall be able to satisfy the first requirement. Besides, each independent non-executive

Director, after considering the business forecast, investment plan and cash flow forecast of the Group for the year of 2004, believes that the repayment of the first installment shall have no adverse impact to the Group's operations or the implementation of its business plan for the year ended 31 December 2004. As the two conditions for repayment were satisfied, the Board resolved to repay the first installment of the outstanding amount. As at 31 March 2004, after the repayment of the first installment, the Group had cash and cash equivalent of approximately RMB100,540,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Consolidation

Total turnover and gross profit of the Group for the Relevant Period were approximately RMB110,427,000 and RMB37,051,000 respectively. As compared with the corresponding period of last year, the total turnover has increased by 20.32%, which was primarily attributed to the increase in the number of natural gas users and significant increase in gas consumption by industrial and commercial users.

Gross profit margin of the Group for the Relevant Period was approximately 33.55%, which was lower than the gross profit margin of the Group of approximately 34.52% for the corresponding period of last year. This was attributable to the increase in the cost of sales, which was caused by a higher unit cost of gas supplied by the Project of Transmitting Natural Gas through the West to the East Pipelines, which amounted to RMB1.04907/m³ after tax. During the Relevant Period, the Group purchased 39,738,000 m³ of natural gas from the Project of Transmitting Natural Gas through the West to the East Pipelines, at an aggregate cost of RMB41,688,000, representing 67.90% of the total volume of natural gas purchased.

During the Relevant Period, administrative expenses amounted to RMB7,348,000, representing a slight increase of 3.06% as compared to RMB7,130,000 for the corresponding period of last year. The Group implemented stringent cost control in the first quarter of 2004 in order to keep administrative expenses at the same level to those at the corresponding period of the previous year. As a result, the increase in the administrative expenses was insignificant.

During the Relevant Period, the tax expenses for the Group was RMB7,440,000, and the income tax rate was 33%, which was in compliance with the relevant laws and regulations on tax in the PRC.

During the Relevant Period, the Group's net profit attributable to its shareholders was RMB18,850,000, representing a growth of 25.47% as compared with RMB15,031,000 at the corresponding period of the last year.

Sales of piped natural gas

Sales revenue of piped natural gas for the Relevant Period amounted to approximately RMB74,037,000, representing an increase of 57.40% as compared with RMB47,038,000 at the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 49,710,000 m³, representing an increase of approximately 61.03% as compared with approximately 30,870,000 m³ for the corresponding period of last year. Comparative figures for the Group's volume of sales of natural gas during the Relevant Period, and those of last year, are set out by user segments as follows:

	Three months ended 31 March				Growth %
	2004	2003			
	<i>As percentage of total sales volume</i>		<i>As percentage of total sales volume</i>		
Natural gas					
Total volume of sales (in approximate '000 m ³)	49,710		30,870		61.03%
of which					
Residential users	20,786	41.81%	18,323	59.36%	13.44%
Commercial users	14,691	29.55%	10,901	35.31%	34.77%
Industrial users	10,659	21.44%	737	2.39%	1346.27%
Vehicle users	3,574	7.19%	909	2.94%	293.18%

According to the above table, the Group has been reducing its reliance on residential users as a source of revenue by diverting its sales towards industrial and commercial markets with higher consumption, representing a more balanced structure in gas sales. The aggregate gas consumption for industrial and commercial users reached 25,350,000 m³, accounting for more than 50% of the total gas consumption for the Relevant Period, which have surpassed the gas consumption of residential users. As at 31 March 2004, the Group had 468,033 residential users, an increase of 10,362 as compared with 457,671 as at 31 December 2003; 792 commercial users, an increase of 33 as compared with 759 as at 31 December 2003 and 21 industrial users, an increase of 3 as compared with 18 as at 31 December 2003.

In respect of the gas powered vehicles business, given the persistently high oil price, vehicle operators were more eager to convert their vehicles into natural gas powered vehicles. During the Relevant Period, the Group converted 302 natural gas powered vehicles, and the total number of natural gas powered vehicles converted has reached 1,830 as at 31 March 2004.

To expand its market into Dengfeng City, the Group established a subsidiary, Dengfeng Zhengran Gas Limited (登封鄭燃燃氣有限公司) (“Dengfeng Zhengran”), on 17 February 2004. Its registered capital was RMB10,000,000, and 65% of its registered capital was owned by the Company directly and 35% by the Zhengzhou Gas Engineering and Construction Company Limited, a non-wholly owned subsidiary of the Company. The Group believes that the establishment of Dengfeng Zhengran would have a positive impact on its market development in Dengfeng City and by fostering its experience on market development outside Zhengzhou, the Group’s momentum of growth could be remarkable.

Natural gas pipeline construction services

For the Relevant Period, the Group’s turnover in natural gas pipeline construction services amounted to approximately RMB30,932,000, representing a growth of 18.65% as compared with RMB26,071,000 for the corresponding period of last year and this was mainly attributable to the satisfactory growth in the natural gas pipeline construction projects for residential users.

In addition, the Group also collects fees from users for providing repair and maintenance services to gas pipelines. During the Relevant Period, such fees were approximately RMB5,573,000, representing a decrease of 20.16% as compared with RMB6,980,000 for the corresponding period of last year. Such decrease was attributable to the deferral of collection of maintenance fees in this year, resulting to a decrease of maintenance fees in the first quarter and it is expected that improvement can be achieved in the next quarter.

Prospects

In 2004, the Group will, on the basis of developing the market of residential users, further explore the market with a focus on industrial and commercial users. With a stronger emphasis on environmental protection in Zhengzhou, coal furnace under 10 tonnes will be prohibited by 2006 and the coal combustion-free zone will be further expanded. Both measures provide a golden opportunity to the Group for further exploring the market of commercial users. In addition, to maintain a mutual prosperous development of commercial and industrial activities in Zhengzhou, the local government of Zhengzhou promulgated certain preferential policies to encourage industrial investments and it is believed that such policies shall further propel the Group’s development in the market of industrial users. Meanwhile, both the setting up of Zhengzhou new city and the enlargement of the scale of urbanization shall act as a catalyst for the Group’s development of residential market and it is expected the growth in the number of residential users can reach 30,000 by the year of 2004.

In respect of the natural gas for vehicles, the Group planned to build two more natural gas re-fuelling stations to improve the network of natural gas supply for vehicles. The Group is optimistic about the development of the business segment of natural gas for vehicle uses as the use of natural gas helps to significantly reduce the costs of vehicle operators and it is expected that approximately 1,200 vehicles will be converted in 2004.

In addition to the abovementioned markets, the Group is currently undertaking studies to expand the application of natural gas to air-conditioning, heating and power generation in order to further expand the development potential of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 March 2004, the interests and short positions of the Directors and supervisors of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Director/ Supervisor	Capacity/ Nature of interests	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % in total registered share capital of the Company
Gao Mingshun	Corporate (Note 1)	15,400,000	2.20%	1.23%
Li Keqing	Corporate (Note 2)	115,500,000	16.48%	9.23%

Notes:

- (1) As at 31 March 2004, Gao Mingshun was interested in 15,400,000 Domestic Shares as a result of him being interested in 95.71% of the registered capital of Zhengzhou Sifang Construction and Decoration Co., Ltd. which holds approximately 1.23% (out of the total registered share capital) and 2.20% (out of Domestic Shares) of the registered share capital of the Company.
- (2) As at 31 March 2004, Li Keqing was interested in 115,500,000 Domestic Shares as a result of him and his spouse, Guo Wenjun, being in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan Investment Consultancy Company Limited, which holds approximately 9.23% (out of the total registered share capital) and 16.48% (out of Domestic Shares) of the registered share capital of the Company.

Save as disclosed in this paragraph, as at 31 March 2004, none of the Directors or supervisors of the Company or their respective associates had interest and short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or supervisor of the Company, as at 31 March 2004, the persons or companies (not being a Director or supervisor of the Company) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) were as follows:

Long positions in Shares

Name	Number of H Shares held	Approximate % of beneficial interests in H Shares	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % in total registered capital share of the Company
Zhengzhou Gas Group Co., Ltd			540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Company Limited (Note 1)			115,500,000	16.48%	9.23%
Guo Wenjun (Note 2)			115,500,000	16.48%	9.23%
Partners Capital International Limited (Note 3)	29,400,000	5.34%			2.35%

Name of subsidiary of the Company	Name of shareholder	Amount of registered capital of the subsidiary	Approximate percentage of shareholding of the subsidiary
Zhengzhou Gas Engineering and Construction Company Limited (鄭州燃氣工程建設有限公司)	Zhengzhou Gas Group Labour Union Committee (鄭州燃氣集團工會委員會)	RMB6,600,000	16.50%
Dengfeng Zhengran Gas Limited (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Company Limited (鄭州燃氣工程建設有限公司)	RMB3,500,000	35%

Notes:

1. Zhengzhou Qiyuan Investment Consultancy Company Limited ("Zhengzhou Qiyuan") holds 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interests in Domestic Shares. However, pursuant to the GEM Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.
2. As at 31 March 2004, Guo Wenjun was interested in 115,500,000 Domestic Shares of the Company as Guo Wenjun and her spouse, Li Keqing were in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan, which was interested in 115,500,000 Domestic Shares or approximately 16.48% of the beneficial interests in the Domestic Shares of the Company. However, pursuant to the GEM Listing Rules, Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares held by Guo Wenjun represented only 9.23% of the total registered share capital of the Company.
3. Partners Capital International Limited ("Partners Capital") was a financial adviser to the Company. Pursuant to the GEM Listing Rules, Partners Capital was not a substantial shareholder of the Company because the H Shares held by Partners Capital represented only 2.35% of the total registered share capital of the Company.

Save as disclosed above, as at 31 March 2004, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying right to vote in all circumstances at general meetings of any member of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

Save as disclosed above, during the three months ended 31 March 2004, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 March 2004, none of the Directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

SPONSOR'S INTERESTS

As at 31 March 2004, neither South China Capital Limited (the "Sponsor"), nor any of its directors or employees or associates, had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any members to the Group.

Pursuant to the sponsor agreement dated 21 October 2002 (the "Sponsor Agreement") entered into between the Company and the Sponsor, the Sponsor has agreed to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date on which dealings in the H Shares on GEM commenced (i.e., 29 October 2002) to 31 December 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period of 29 October 2002 (i.e. the date on which the H Shares were listed on GEM) to 31 March 2004.

AUDIT COMMITTEE

The Company established an audit committee on 31 March 2002 with terms of reference in compliance with Rules 5.28, 5.29 and 5.30 of the GEM Listing Rules. The primary functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive directors of the Company, and Mr. Zhang Chaoyi, a non-executive director. Ms. Yu Shulian is the chairperson of the audit committee.

During the Relevant Period, the audit committee held one formal meeting.

COMPETING INTERESTS

Zhengzhou Gas Group Co., Ltd., being the controlling shareholder and initial management shareholder of the Company, through its interest of 48% of the registered capital in Zhengzhou Gas Group LPG Co., Ltd. ("Zhengzhou LPG"), is engaged in the sales of bottled LPG in Zhengzhou. As both of the business of Zhengzhou LPG of selling bottled LPG in Zhengzhou and the Company's business of selling pipeline natural gas involve the provision of fuel to customers, such businesses therefore constitute competing interests.

Save as disclosed above, none of the Directors, the initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS

The members of the Board include (i) the executive Directors, Mr. Yan Guoqi (閔國起) (Chairman), Mr. Song Jinhui (宋金會) and Ms. Niu Minghua (牛鳴華); (ii) the non-executive Directors, Mr. Chang Zongxian (常宗賢), Mr. Wang Yuheng (王玉珩), Mr. Zhang Wushan (張武山), Mr. Li Keqing (李克清), Mr. Zhang Chaoyi (張超義), and Mr. Li Zhenguo (李振國); and (iii) the independent non-executive Directors, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文), and Ms. Yu Shulian (余恕蓮). The supervisors of the Company are Ms. Yang Qing (楊清), Mr. Ding Ping (丁平), Ms. Zhou Weihua (周衛華), Mr. Gao Mingshun (高明順), and Ms. Wang Xiaoxing (王小興).

By Order of the Board
Zhengzhou Gas Company Limited*
Yan Guoqi
Chairman

Zhengzhou, The PRC
14 May 2004

* For identification purpose only